

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



1-A DISTRICT AGRICULTURAL ASSOCIATION
COW PALACE
DALY CITY, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-001
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

1-A DISTRICT AGRICULTURAL ASSOCIATION
COW PALACE
DALY CITY, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

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Audit Chief
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AUDIT REPORT NUMBER

#09-001

1-A DISTRICT AGRICULTURAL ASSOCIATION
COW PALACE
DALY CITY, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Henry N Kuechler, President
Board of Directors
1-A DAA, Cow Palace
2600 Geneva Avenue
Daly City, California 94014

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 1-A District Agricultural Association (DAA), Cow Palace, Daly City, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 1-A DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 1-A DAA, Cow Palace, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

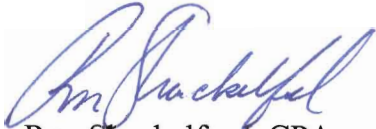
The accompanying financial statements have been prepared assuming that 1-A DAA will continue as a going concern. As shown in the financial statements, 1-A DAA incurred a net operating loss of \$124,465 and \$602,521 during the year ended December 31, 2008 and 2007, and as of that date, current liabilities exceeded current assets by \$268,473 and \$275,938. Those conditions (as discussed in Note 8) raised substantial doubt about 1-A



DAA's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if 1-A DAA is unable to continue as a going concern.

The 1-A DAA, Cow Palace has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-001, on the 1-A DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 1-A DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.



Ron Shackelford, CPA
Chief, Audit Office

May 21, 2009

**1-A DISTRICT AGRICULTURAL ASSOCIATION
COW PALACE
DALY CITY, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2008 and 2007**

	<u>Account Number</u>	<u>2008</u>	<u>2007</u>
ASSETS			
Cash & Cash Equivalents	111-116	\$ 437,178	\$ 685,391
Accounts Receivable, Net	131	47,522	135,382
Inventory	141	5,624	8,443
Deferred Charges	143	12,010	12,610
Land	191	145,397	145,397
Buildings and Improvements, Net	192	2,491,825	2,674,417
Equipment, Net	193	3,166	7,652
TOTAL ASSETS		<u>3,142,722</u>	<u>3,669,292</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable	212	594,666	807,801
Current Portion of LT Debt	212.5	28,724	67,191
Other Payables	213 - 226	(1,956)	(3,291)
Deferred Income	228	125,501	238,738
Compensated Absences Liability	245	124,971	151,395
Long Term Debt	250	87,624	116,348
Trust Liabilities	259	23,872	7,325
Total Liabilities		<u>983,402</u>	<u>1,385,507</u>
Net Resources			
Net Resources - Operations	291	(364,720)	(360,141)
Net Resources - Capital Assets less Related Debt	291.1	2,524,040	2,643,926
Total Net Resources Available		<u>2,159,320</u>	<u>2,283,785</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 3,142,722</u>	<u>\$ 3,669,292</u>

**1-A DISTRICT AGRICULTURAL ASSOCIATION
COW PALACE
DALY CITY, CALIFORNIA**

**STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
December 31, 2008 and 2007**

	<u>Account Number</u>	<u>2008</u>	<u>2007</u>
REVENUE			
State Allocation	312	\$ 140,000	\$ 175,000
F&E Funding	318	35,000	37,100
Admissions	410	531,118	861,414
Commercial Space	415	62,976	88,050
Concessions	420	120,896	193,466
Exhibits	430	91,654	114,768
Horse Show	440	91,674	93,439
Attractions - Fairtime	460	50,396	52,332
Miscellaneous Fair	470	226,110	310,865
JLA Revenue	476	39,861	-
Non-Fair Revenue	480	3,817,535	3,730,511
Prior Year Adjustment	490	(31,174)	65,645
Other Revenue	495	198,025	135,487
Total Revenue		<u>5,374,071</u>	<u>5,858,077</u>
EXPENSES			
Administration	500	1,518,455	1,648,605
Maintenance and Operations	520	1,439,407	1,577,910
Publicity	540	320,667	316,665
Attendance	560	1,081,552	1,153,705
Miscellaneous Fair	570	67,628	136,913
JLA Expense	576	39,861	-
Premiums	580	122,751	170,828
Exhibits	630	55,726	76,720
Horse Show	640	60,682	65,796
Attractions - Fairtime	660	521,739	1,079,239
Equipment	723	956	(19,028)
Prior Year Adjustments	800	81,782	33,151
Cash Over/Short	850	252	574
Depreciation Expense	900	187,078	205,520
Capital Expenditures	945	-	20,000
Total Expenses		<u>5,498,536</u>	<u>6,466,598</u>
RESOURCES			
Net Change - Income / (Loss)		(124,465)	(608,521)
Resources Available, January 1		2,283,785	2,892,306
Resources Available, December 31		<u>\$ 2,159,320</u>	<u>\$ 2,283,785</u>

**1-A DISTRICT AGRICULTURAL ASSOCIATION
COW PALACE
DALY CITY, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ (124,465)	\$ (608,521)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	87,860	(5,280)
(Increase) Decrease in Inventory	2,819	(2,404)
(Increase) Decrease in Deferred Charges	600	99,690
Increase (Decrease) in Accounts Payable	(213,135)	423,491
Increase (Decrease) in Current Portion of Long-Term Debt	(38,467)	26,328
Increase (Decrease) in Other Liabilities	1,335	(11,038)
Increase (Decrease) in Deferred Income	(113,237)	(73,256)
Increase (Decrease) in Trust Liabilities	16,547	(7,800)
Increase (Decrease) in Compensated Absence Liability	(26,424)	28,450
Total Adjustments	<u>(282,102)</u>	<u>478,181</u>
Net Cash Provided (Used) by Operating Activities	<u>(406,567)</u>	<u>(130,340)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease of Buildings and Improvements, Net	182,592	(36,984)
(Increase) Decrease of Equipment, Net	4,486	33,814
Net Cash Provided (Used) by Investing Activities	<u>187,078</u>	<u>(3,170)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	<u>(28,724)</u>	<u>76,348</u>
Net Cash Provided (Used) by Financing Activities	<u>(28,724)</u>	<u>76,348</u>
NET INCREASE (DECREASE) IN CASH	(248,213)	(57,162)
Cash at Beginning of Year	685,391	742,553
CASH AT END OF YEAR	<u><u>\$ 437,178</u></u>	<u><u>\$ 685,391</u></u>

**1-A DISTRICT AGRICULTURAL ASSOCIATION
COW PALACE
DALY CITY, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 1-A District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Cow Palace each year in Daly City, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned

rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the

useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, state and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2

NEW ACCOUNTING STANDARDS

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues*, ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, (“GASB Statement No. 49”). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an “expected cash flows” measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*, (GASB Statement No. 50”). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, (“GASB Statement No. 25”), and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, (“GASB Statement No. 27”) to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, (“GASB Statement No. 43”) and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, (“GASB Statement No. 51”). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 **CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2008</u>	<u>2007</u>
Petty Cash	\$ 72,100	\$ 146,700
Cash in Bank – Operating	206,811	438,680
Cash in Bank – Investment & Savings	<u>158,267</u>	<u>100,011</u>
Total Cash and Cash Equivalents	<u>\$ 437,178</u>	<u>\$ 685,391</u>

NOTE 4 **ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	<u>2008</u>	<u>2007</u>
Accounts Receivable	\$ 106,839	\$ 174,994
Allowance for Doubtful Accounts	<u>(59,317)</u>	<u>(39,612)</u>
Accounts Receivable – Net	<u>\$ 47,522</u>	<u>\$ 135,382</u>

NOTE 5 **PROPERTY AND EQUIPMENT**

Buildings and improvements, and equipment at December 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Building & Improvements	\$ 12,813,572	\$ 12,813,572
Less: Accumulated Depreciation	<u>(10,321,747)</u>	<u>(10,139,155)</u>
Building & Improvements - Net	<u>\$ 2,491,825</u>	<u>\$ 2,674,417</u>
Equipment	\$ 1,468,742	\$ 1,468,742
Less: Accumulated Depreciation	<u>(1,465,576)</u>	<u>(1,461,090)</u>
Equipment - Net	<u>\$ 3,166</u>	<u>\$ 7,652</u>

NOTE 6 **LONG-TERM DEBT**

The DAA has entered into a long-term loan agreement with California Fair Services Authority (CFSA) to finance the lightning project on the fairgrounds. The terms of the agreement are as follows:

Lighting Project Equipment Loan:

Loan Amount	\$149,485
First Payment Date	March 6, 2007
Payment Amount	\$2,867
Duration of Loan	60 Months
Interest Rate	5.5%
Total Outstanding at 12/31/08	\$116,348
Current Portion at 12/31/08	\$ 28,724
Long-Term Portion at 12/31/08	\$ 87,624

NOTE 7

RETIREMENT PLAN

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 8 GOING CONCERN

As shown in the accompanying financial statements, 1-A DAA incurred net operating losses for two consecutive years. As of the December 31, 2008 and 2007 balance sheet date, the current liabilities exceeded its current assets by \$268,473 and \$275,938 (\$770,807 – 502,334 and \$1,117,764-841,826), based on the following breakdown:

	<u>2008</u>	<u>2007</u>
Current Assets:		
Cash	\$ 437,178	\$ 685,391
Accts Receivable, Net	47,522	135,382
Inventory	5,624	8,443
Deferred Charges	12,010	12,610
Total Current Assets	<u>\$ 502,334</u>	<u>\$ 841,826</u>
 Current Liabilities:		
Accounts Payable	\$ 594,666	\$ 807,801
Current Portion-LTD	28,724	67,191
Other Payables	(1,956)	(3,291)
Deferred Income	125,501	238,738
Trust Liabilities	23,872	7,325
Total Current Liabilities	<u>\$ 770,807</u>	<u>\$ 1,117,764</u>

Consequently, 1-A DAA was unable to meet its obligations as they became due. These conditions raise a substantial doubt about 1-A DAA's ability to continue as a going concern. Management of 1-A DAA plan to obtain a long-term lease for the vacant surface parking lot that is approximately 12.97 acres in size (development site) located along Geneva Avenue. The 1-A DAA has presented a Request for Lease Proposals (RFLP) for interested private developers to submit proposals for leasing and development of a high quality community and neighborhood commercial projects on the development site. The intent of this RFLP is for the DAA to select the most qualified and experienced development team which is proposing the highest and most certain economic return to the DAA. The 1-A DAA's ability to achieve the foregoing plan, which may be necessary to generate additional operating revenue and the satisfaction of liabilities in the ordinary course of business, is uncertain.

NOTE 9 RECLASSIFICATION

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**1-A DISTRICT AGRICULTURAL ASSOCIATION
COW PALACE
DALY CITY, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 1-A DAA Board of Directors
1	Chief Executive Officer, 1-A DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



1-A DISTRICT AGRICULTURAL ASSOCIATION
COW PALACE
DALY CITY, CALIFORNIA

MANAGEMENT REPORT #09-001

YEAR ENDED DECEMBER 31, 2008

1-A DISTRICT AGRICULTURAL ASSOCIATION
COW PALACE
DALY CITY, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

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Shakil Anwar, CPA
Anthony DelMastro
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Audit Chief
Assistant Audit Chief
Auditor
Auditor

MANAGEMENT REPORT NUMBER

#09-001

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Henry Kuechler, President
Board of Directors
1-A DAA, Cow Palace
2600 Geneva Avenue
Daly City, California 94014

In planning and performing our audit of the financial statements of the 1-A District Agricultural Association (DAA), Cow Palace, Daly City, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Cow Palace with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 1-A DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 1-A DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly



recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 1-A DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 1-A DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 1-A DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 1-A DAA and compliance with state laws and regulations, we identified five areas with reportable conditions that are considered weaknesses in the 1-A DAA's operations: interim event complimentary ticket/passes, accounting for courtesy passes, use of state vehicles, CAL-Card expenditures, and sponsorship revenue. We have provided seven recommendations to improve the operations of the 1-A DAA. The 1-A DAA must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 1-A DAA's management. We suggest the 1-A DAA implements the recommendations as soon as practicable. The 1-A DAA, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

INTERIM EVENT COMPLIMENTARY TICKETS/PASSES

The 1-A DAA, Cow Palace, has inserted language in several interim contracts allowing it to reserve sixty-six complimentary tickets for shows, events, and concerts to be held at the Cow Palace. For 2008, our office selected a sample of interim events held at the Cow Palace to audit and discovered, of the thirty-two interim event contracts sampled, fourteen had language stating the, "Association reserves the right to sixty-six complimentary tickets as required and without charge for each event day." Based on our sample, for each event, we calculated the amount of complimentary tickets reserved, days of the event, and face value of the ticket, and noted a maximum of \$35,958 in complimentary passes could have been reserved by the Cow Palace. The Cow Palace stated they did not maintain a log as to the number of complimentary tickets requested from the interim contractors. Furthermore, the Cow Palace does not maintain any supporting documentation identifying the distribution or eventual redemption of these tickets. As a result, our office cannot determine the number of complimentary passes received by the Cow Palace or determine whether any complimentary tickets received and subsequently used served only a legitimate business purpose.

The Cow Palace should be cautioned that complimentary tickets used for the sole benefit of board members or staff is unjustified, absent a legitimate business purpose, and may be deemed a gift of public funds. According to the Government Code Section 82028, a gift is defined as any payment that confers a personal benefit on the recipient, to the extent that consideration of equal or greater value is not received. The California constitution states in part, "the Legislature shall have no power to make any gift or authorize the making of any gift, of any public money or thing of value to any individual," and as state agency DAAs are governed by this law. In addition, according to the Fairs and Exposition (F&E) Accounting Procedures Manual (APM), free passes to state-sponsored entertainment events are prohibited.

Furthermore, the Fair Political Practices Commission (FPPC) recently adopted California Code of Regulation, Section 18944.1, which requires free tickets/passes to be treated as income subject to taxes or treated as a gift, which would make them subject to strict state limits. If not treated as income, the Fair/ official would have to demonstrate that the freebies benefit the public because state law prohibits gifts of public funds.

Recommendation

- 1. The Cow Palace should establish and maintain a log tracking the number of complimentary passes it requested from each of its interim events. Furthermore, the Cow Place should track the eventual distribution of these complimentary tickets to ensure they serve only a legitimate business purpose. The Cow Palace should be cautioned that if there is not a legitimate business purpose, distributions of this nature may be deemed a gift of public funds which is prohibited.*

ACCOUNTING FOR COURTESY PASSES

The Cow Palace did not report courtesy pass admissions on the 2008 Statement of Operations (STOP) Fair Statistics schedule. Upon examination of courtesy passes administered for the 2008 Grand National Rodeo, Horse & Stock Show (GNR), we noted the Cow Palace utilized “comp” tickets for free admission to the GNR totaling 1,064. Based on our review of comp tickets, we recalculated the amount of comp tickets and noted a total of 3,086. We computed 2008 courtesy pass admission as a percent of prior year gross paid admissions, for a total of 11%, well above the 4% maximum according to Food & Agriculture Code Section 3026.

Recommendation

2. *The Cow Palace should comply with the California Food and Agriculture Code Section 3026 by restricting the number of courtesy passes issued to less than 4% of prior year's paid admissions. As a state agency, the Cow Palace has the ultimate responsibility to the public to demonstrate compliance with all state rules and regulations over courtesy passes.*

USE OF STATE VEHICLES

Our office noted weaknesses in the Cow Palace's internal controls over its management of state vehicles. The Cow Palace currently has thirteen passenger vehicles in its fleet. These vehicles remain in the Cow Palace fleet for business use during the day for its operations and maintenance employees. The Cow Palace does not maintain adequate vehicle travel logs or vehicle trip reports. The vehicle travel logs and trip reports do not always contain pertinent information such as the vehicle numbers, the personnel who used the vehicle, and the beginning and ending meter readings. Our office cannot determine whether the Cow Palace's vehicles were used for business purposes only. Overall, maintaining detailed vehicle travel logs and trip reports helps improve internal controls and helps safeguard assets by preventing any misuse of state vehicles by employees. This was a prior year finding.

In addition, the Cow Palace maintains on-site fuel tanks on the fairgrounds for refueling vehicles and equipment. Upon examination of the fuel consumption reports, we noted instances where there were no beginning and ending meter readings and no indication when refills were made on the report. Without accurate meter readings, we were unable to determine if fuel usage was solely for business purposes. This was a prior year finding.

Recommendations

3. *The Cow Palace should develop and establish written policies and procedures for employees to follow when using its state vehicles. These policies should include a notation that the vehicles are restricted for official state business only.*
4. *The Cow Palace should improve internal controls over the usage of fuel. At minimum, the Cow Palace should maintain records indicating the fuel's beginning and ending meter readings so that the Cow Palace can determine if fuel was used solely for business purposes.*

CAL-CARD EXPENDITURES

Our office noted employee(s) of the Cow Palace used a state issued CAL-Card to make lodging and travel related transactions. According to the State Administrative Manual (SAM) Management Memo (MM) #04-06 dated January 26, 2005, the CAL-Card cannot be used for items such as State travel-related expenses. This includes travel-related per diem expenses normally reimbursed to State employees on a travel expense claim (TEC). Travel is defined as airline tickets, ground transportation, vehicle rentals, restaurants (meals), and lodging. This was a prior year audit finding.

Recommendation

5. *The Cow Palace should comply with SAM (MM) #04-06 dated January 26, 2005, "CAL-Card: Purchasing Card Program" documenting CAL-Card purchasing limitations. Furthermore, travel related per diem expenses should be reimbursed on a TEC submitted by the employee.*

SPONSORSHIP REVENUE

Our office noted the Cow Palace has no Board-established procedures for entering into sponsorship agreements. According to the F&E Contract Manual, DAAs should have Board-established procedures for entering into sponsorship agreements. This includes procedures for securing sponsorships and hiring sponsorships coordinators. Sponsorship agreements with a value of less than \$100,000 and length of two years or less are subject only to Board approved procedures.

In addition, our office noted in two instances the Cow Palace did not notify F&E prior to entering into sponsorship agreements exceeding two years in length. According to Food Agriculture Code Section 4051.1., "written notification to the department shall be required ... prior to entering into any agreement ... if the agreement exceeds \$100,000 in value, [or] exists for a period of greater than two years." The Cow Palace is required to notify F&E and wait for a response prior to entering the multi-year sponsorship agreement.

Recommendations

6. *The Cow Palace should comply with the F&E Contract Manual by establishing Board-approved procedures for staff to follow when entering into sponsorship agreements or agreements with sponsorship coordinators to procure sponsorships on behalf of the Cow Palace.*
7. *The Cow Palace should emphasize better internal controls by complying with Food and Agriculture Code Section 4051.1, and notifying F&E prior to entering into sponsorship agreements that exceed two years in length.*

NON-REPORTABLE CONDITIONS

STANDARD AGREEMENTS

An examination of standard agreements entered into by the Cow Palace and other parties identified the following exceptions:

- a. The Cow Palace did not submit two contracts over \$75,000 to F&E for approval. According to the F&E Contract Manual, all contracts over \$75,000 are required to be submitted to F&E for approval prior to the term of the contract beginning.
- b. There was no evidence that the Cow Palace obtained approval from California Fair Service Authority (CFSA) for six hazardous contracts greater than \$75,000 and non-hazardous contracts greater than \$15,000 but not more than \$75,000.
- c. The Cow Palace did not prepare a written justification explaining why multi-year contracts were in the best interest of the Cow Palace. The Cow Palace had two multi-year contracts on file. According to the F&E Contract Manual, if a contract is for more than one year or contains options to renew which if exercised would make the contract multi-year, a written justification explaining the reasons multi-year contracts are in the best interest of the DAA must be included in the contract file and in the contract package if the contract requires F&E approval.
- d. The Cow Palace did not always submit to CFSA proof of liability insurance for review and approval for six contracts reviewed. Fairs are required to submit insurance to CFSA for review, prior to services being performed, to verify that insurance provides adequate coverage.
- e. The Cow Palace did not prepare a Standard (Std) 215 Agreement Summary for each Standard (Std) 213 Agreement as required by the F&E Contract Manual. Our office noted twelve Std 213 Agreements without an accompanying Std 215 Agreement Summary.
- f. The Cow Palace did not withhold the California state tax of 7% for one non-resident entertainer. Beginning January 1, 2008, all withholding agents must withhold the standard 7% on California source payments to non-residents. These withholdings are sent to the Franchise Tax Board (FTB).
- g. The Cow Palace did not always prepare a standard agreement for businesses/individuals who received an IRS Form 1099-MISC for services rendered. The IRS Form 1099-MISC is issued to recipients of non-employee compensation of \$600 or more from the Cow Palace during the calendar year. According to the APM, fairs are required to enter into a contract for all services performed by independent contractors. In addition, we noted two individuals were paid in excess of \$15,000 without an agreement prepared on a Std 213. Failure to prepare a standard agreement exposes the Cow Palace to considerable risk.

Recommendations

The Cow Palace should comply with the F&E Contract Manual by ensuring all contracts over \$75,000 are submitted to F&E within sufficient lead time for approval.

The Cow Palace should ensure that all hazardous contracts greater than \$75,000 and non-hazardous contracts greater than \$15,000 but not more than \$75,000 are submitted to CFSA for approval.

The Cow Palace should ensure that a written justification explaining the reasons multi-year contracts are in the best interest of the Cow Palace is prepared for all multi-year contracts.

The Cow Palace should ensure that CFSA reviews and approves all insurance providers prior to the execution of a service contract to ensure insurance is adequate.

The Cow Palace should comply with the F&E Contract Manual by ensuring a Std 215 Agreement Summary is prepared for each Std 213 Agreement.

The Cow Palace should comply with state laws and withhold from out-of-state entertainers the state tax rate of 7% prior to payment.

The Cow Palace should ensure that a contract exists for any business/individual who receives an IRS Form 1099-MISC from the Cow Palace for services rendered

ACCOUNTING FOR PURCHASE ORDERS

The Cow Palace exposed itself to loss by not following the proper procedures and by using an incorrect State form for expenses related to services. Based on our examination, our office noted the Cow Palace incorrectly used purchase orders instead of a standard agreement for construction and fairground improvement services. According to the F&E Purchasing Manual Section XI, Service and Rental Transactions, “transactions with minimal or no liability exposure can be completed on a purchase order.” Based on our review, we have determined services do not have a minimal liability exposure, thus the Std 210 or 213 should have been used depending on the amount of expense incurred.

Recommendation

The Cow Palace should comply with the F&E Purchasing Manual by completing the necessary Std 213 or 210 for service contracts, regardless of the amount.

CASH RECEIPTS

Our office noted internal control weaknesses in the cash receipting procedures. The Cow Palace did not maintain adequate control of its blank receipt stock. Our audit identified receipts were not issued in sequential order. Receipts were maintained in sequential order in binders; however the receipts were not in chronological order (for example, voucher dated 3/5/08 is #1582 and voucher dated 3/4/08 is #2112). Furthermore, the box office, parking, and administration office each process and deposit receipts separately. It does not appear

they maintained a log of the receipts submitted by these other departments. This was a prior year finding

Recommendation

The Cow Palace should develop proper procedures for internal control of its cash receipts. The Cow Palace should reconcile and summarize the cash receipts on a monthly basis. Tracking receipts on a log and monthly summarization would help ensure all receipts are recorded in the general ledger and aid in the preparation of the year-end Federal Labor Standards Act recreational exemption.

BOARD MINUTES

An analysis of the Cow Palace's Board of Director's meeting minutes identified that the Board President did not sign and date board minutes indicating a formal certification of the actual activity discussed in a public forum at year-end 2008. Having the Board President examine and approve the minutes helps improve controls and mitigates the possibility of any changes being made to minutes after the fact.

Recommendation

The Cow Palace should ensure that the Board President formally certifies the minutes of all Board of Director's meetings by signing and dating the related minutes after a review has taken place. This process serves dual purposes as it (i) helps to ensure the minutes accurately reflect the activities discussed during the public forum, and (ii) mitigates the possibility of changes being made to the minutes.

DEFERRED INCOME

The Cow Palace incorrectly used the deferred income account as a refundable (guaranteed deposit) account during the year. During examination of Account #228 – Deferred Income, we noted that throughout the year the Cow Palace collects gross gate receipts on behalf of the promoter. The majority of this amount represents money to be refunded to the event promoter less expenses incurred by the Cow Palace during an event. Although Account #228, Deferred Income, and Account #241, Guaranteed Deposit, maintain credit (liability) balances, guaranteed deposits represent monies due back to renters whereas deferred income represents a future service, not cash, owed by the Cow Palace to the renter for the advance receipt of monies.

Recommendation

The Cow Palace should comply with generally accepted accounting principles by correctly recording monies due back to renters as guaranteed deposits and not deferred income. After the conclusion of the event, the amounts should be recognized as revenue.

FEDERAL LABOR STANDARD ACT (FLSA)

The Cow Palace did not perform the FLSA calculation correctly. According to the Accounting Procedures Manual, fairs are required to report in the FLSA Recreational Exemption worksheet gross receipts in the month it was actually received as opposed to when it was earned. The Cow Palace incorrectly used reported operating revenue from the monthly statement of operations as the monthly figure on the FLSA worksheet which may include revenue received in prior months. Based on the method used by the Cow Palace, we are unable to verify accuracy of the FLSA calculation and whether it actually meets the percent limitation.

Recommendation

The Cow Palace should adjust their method for calculating the monthly gross receipts when preparing the FLSA Recreational Exemption worksheet to ensure that monthly gross receipts are accurate.

TRAVEL EXPENSE CLAIMS

The Cow Palace did not properly process business meal expenditures for staff while on travel status. Currently, the Cow Palace pays for travel expenditures incurred by staff with a credit card. Travel expenditures (including hotel, meals, and parking) while on travel status are to be recorded and reimbursed on travel expense claims (TEC) Standard Form 262, as required by Department of Personnel Administration (DPA) Rule 599.638, by each individual benefiting from the expense. This will ensure proper TEC documentation and that the maximum per diem limitations established by the DPA are not exceeded.

Recommendation

The Cow Palace should ensure that TEC forms are always prepared to document business meal expenditures are properly processed through individual TECs, as required by DPA guidelines.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE

COW PALACE®

P.O. Box 34206 • San Francisco, California 94134 • (415) 404-4100 • Fax 337-0941

September 9, 2009

Ron Shackleford, CPA
Chief Audit Office
California Department of Food and Agriculture
1220 N Street, Room 344
Sacramento, CA 95814

Re: 1-A District Agricultural Association ("Cow Palace");
Your Management Report #09-001: Year Ended December 31, 2008

Dear Mr. Shackleford:

This is in response to the preliminary draft audit report that you provided with your transmittal letter to Board President Henry Kuechler, dated August 13, 2009.

Our responses to the seven recommendations made in connection with the areas of reportable conditions are as follows:

Response to Recommendation No. 1: The Cow Palace will keep a log, in the possession of the Chief Executive Officer ("CEO"), tracking the number of complimentary tickets for interim events requested and the business purpose for which the passes are issued. The CEO will be responsible for tracking the eventual distribution of these complimentary tickets to ensure that there is a legitimate business purpose.

Response to Recommendation No. 2: The Cow Palace will make a clear distinction between credentials and courtesy passes. In addition the Cow Palace will calculate the number of courtesy passes equal to 4% of the prior event's paid admissions and, under

the direction of the CEO, control the distribution of these passes so as to fully comply with section 3026 of the Food and Agriculture Code.

Response to Recommendation No. 3: The Cow Palace will, under the direction of the Chief Administrative Officer ("CAO"), develop and establish new written policies and procedures, which include a notation that the vehicles are restricted for official state business only, for employees to follow when using its state vehicles.

Response to Recommendation No. 4: The Cow Palace will, under the direction of the CAO, improve internal controls and compliance with existing procedures over usage of fuel including but not limited to maintaining records indicating beginning and ending meter readings. The CAO will monitor compliance.

Response to Recommendation No. 5: The Cow Palace, under the direction of the CAO, will notify all employees of the provisions of SAM #04-06, dated January 26, 2005, regarding CAL-card purchasing restrictions and the requirement that travel related per diem expenses should be reimbursed on a TEC submitted by the employee. The CAO will monitor compliance.

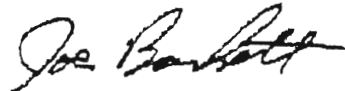
Response to Recommendation No. 6: The Cow Palace, under the direction of the CEO, will submit for Board approval specific procedures for sponsorship agreements and agreements with sponsorship coordinators to procure sponsorships.

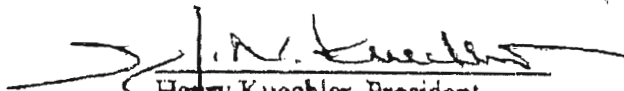
Response to Recommendation No. 7: The Cow Palace, under the direction of the CEO, will notify F&E prior to entering into sponsorship agreements that exceed two years in length as required under Food and Agriculture Code section 4051.1.

It is anticipated that the above policies and procedures will be presented to the Board of Directors at its next regularly scheduled meeting (October 20, 2009).

Thank you for your efforts. If you have any questions or suggestions please do not hesitate to let us know.

Sincerely,
1-A District Agricultural Association


Joe Barkett, CEO


Henry Kuechler, President

C DFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the Cow Palace, for their review and response. We have reviewed the response and it satisfactorily addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between May 11, 2009 and May 27, 2009. My staff met with management on May 22, 2009 to discuss the findings and recommendations, as well as other issues.

Please respond directly to this office, within 30 days, stating your plans for implementing each recommendation requiring a response from you. The response should indicate how and when the implementation will take place (maximum six-month timetable). In addition, please provide an information copy to the Division of Fairs and Expositions.

State of California
Department of Food and Agriculture
1220 N Street, Room 344
Sacramento, CA 95814

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA
Chief, Audit Office

May 22, 2009

REPORT DISTRIBUTION

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